

Rolls-Royce & Bentley Pension Fund (“the Fund”)

Statement of Investment Principles

INVESTMENT OBJECTIVES AND STRATEGY

The principal objective of the Trustee is to ensure the benefits promised to members are paid on time and in full.

The Fund has entered into a bulk annuity insurance contract with Phoenix Life Limited (“PLL”).

The bulk annuity contract is expected to provide an exact match for the accrued liabilities and is intended to provide an income to the Fund matching the pension payments due to the Fund’s members.

This bulk annuity contract is a Fund asset.

The Fund also holds illiquid assets. The Fund arranged two deferred premiums to meet the overall bulk annuity premium whilst these illiquid assets realise their value over time. One of these deferred premiums was settled in August 2024.

Any residual surplus cash has been retained across a liquidity fund and the Trustee bank account to meet potential balancing premiums due in the future and ongoing expenses.

RISK

The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). Following the purchase of the bulk annuity contract, the Trustee recognises that the main risks retained in the Fund are as follows:

- The default risk of the chosen insurer, PLL. As part of the insurer due diligence that was carried out prior to the bulk annuity contract purchase, the Fund's buy-in advisers provided advice to the Trustee on the financial strength of PLL at the time of the transaction and the Trustee proceeded based on that advice.
- The Trustee recognises there are various risks the insurer faces that could lead to an increased risk of default, such as; the life expectancy of their policy holders increasing, the risk of material adverse market movements, poor liquidity management, the impact of subsequent insurance book transfers into PLL, and the risk that the insurer does not generate sufficient cashflows net of dividends to run its businesses effectively.
 - The Trustee relies on the regulatory framework that each insurer operates under to mitigate the risks they face, e.g. the regulatory capital requirements,

as well as each insurer's risk management policies and controls which are expected to comply with these regulations.

- PLL are authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA, which monitors their financial strength and solvency as part of its mandate.
- In addition, in the event of default by the insurer, it is expected that attempts to transfer the responsibility to an alternative insurer will be made by the PRA. If such attempts fail, the Fund is expected to be eligible for compensation from the Financial Services Compensation Scheme ("FSCS"), up to the full value of the benefits insured, based on the current FSCS rules.
- The risk that the Fund's illiquid assets fall in value during the deferred premium period. The Trustee monitors these mandates through regular reporting from the investment adviser.
- Given the maturity of the Fund's illiquid investments (that is, they have entered the run-off stage of their life cycles), the Trustee believes that financial considerations, including those arising from environmental (including but not limited to climate change), social and governance factors are not likely to be material to the investment strategy.
- The risk of a shortfall of liquid assets relative to the Fund's immediate liabilities ("cash flow risk"). The Trustee and their advisers will manage the Fund's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs. However, the Trustee recognises this risk has substantially fallen since entering the bulk annuity insurance contract with PLL.
- The possibility of failure of the Fund's sponsoring employer ("covenant risk"). Given the Fund will no longer have any deficit repair contributions due from the Sponsor and following the purchase of the bulk annuity contract, the reliance on the Sponsor has meaningfully reduced. Any residual risk that remains relates to some small outstanding balancing payments. Although the Fund is expected to have sufficient assets to cover these payments in most circumstances, it is possible that the Fund may still require a small amount of support from the Sponsor. The reliance on the Sponsor and the Fund's risk exposure under a Sponsor failure scenario is expected to be small.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability, compensation and conflicts of interest clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner. The Trustee maintains a Risk Register which is reviewed at least annually. The Risk Register seeks to identify risks particular to the Fund and ways in which these risks can be managed and monitored.

The Trustee recognises the interaction between investment risk and employer covenant/funding risk and is committed to assessing, monitoring and managing these risks in an integrated manner. The Trustee expects its investment, actuarial and covenant advisers to work together to apply this integrated approach.

IMPLEMENTATION

Redington has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions themselves and to monitor those they delegate. The Trustee pays Redington on a fixed retainer for all services. This structure has been chosen to further align the interests of the investment adviser and the Fund, whilst ensuring cost-effective advice is received.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4).

Asset Manager Policy

Due to the costs, benefits and ease of implementation, it is the Trustee's preference to invest in pooled investment vehicles. The Trustee recognizes that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. However, the Trustee's investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee.

When relevant, the Trustee requires its investment managers to invest with a medium-to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. The Trustee does not expect the respective asset managers to make decisions based solely on maximizing long-term performance. Other objectives may include providing risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years. The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Managers are generally paid an ad valorem fee for a defined set of services. Performance fees may be agreed where appropriate to the mandate in question. The Trustee reviews the fees annually to confirm they are in line with market practices, notably when the Trustee expects the manager to take an active ownership approach and consider long-term ESG risk factors.

The Trustee reviews the portfolio transaction costs and managers' portfolio turnover ranges, where the data is disclosed and available. The Trustee will then determine

whether the costs incurred were within reasonable expectations for the asset class/mandate in question, based on input from the investment adviser and/or third party specialists.

Other Implementation Considerations

In relation to derivative instruments, investments may be made only insofar as they:

- Contribute to the reduction of risks; or
- Facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investments must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

The Fund will not permit the use of derivative contracts and the engagement of loans by fund managers employed, unless it has previously been agreed explicitly in the manager agreement. Where derivative contracts are permitted, they will continue to be used only by appropriately authorised fund managers. Managers must undergo careful and critical assessment of the usage of such contracts in line with the risk reduction and efficient portfolio management requirements above. The Fund will separately keep record of the type of derivative instruments utilised by managers as part of its regular monitoring.

RESPONSIBLE INVESTMENT

Environmental, Social and Governance (“ESG”) Factors

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) may be financially material over the time horizon of the Fund, but will have varying levels of importance for different types of assets invested by the Fund.

Whilst the Trustee considers that financially material considerations such as ESG issues are likely to have financial impacts on pension investments, in the context of the Fund's investment in a bulk annuity contract, the Trustee expects that these considerations and factors will be included in the insurers' investment processes, supported by current and future regulations and by improving industry standards.

The Trustee is required, under Regulation 2(3)(d) of The Occupational Pension Schemes (Investment) Regulations 2005, to include details of their manager alignment policies in this SIP or explain why they have not done so. The Trustee has not included details of its manager alignment policies in this SIP given the Fund's investment in a bulk annuity contract, the nature of the illiquid assets, and the limited cash holdings. Further, the Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term. However, due to the nature of the Fund's investments, the Fund's ability to ensure good stewardship by engaging with its managers is limited.

The Trustee’s policy is generally to delegate responsibility for the stewardship activities (including voting rights and engagement activities) attaching to all investments to its investment managers, where appropriate. The regulatory environment regarding stewardship is also expected to continue developing and the Fund's insurers will need to comply with current and future relevant regulations regarding stewardship. The Trustee does not take account of any non-financial factors (such as members’ ethical views) in the selection, retention and realisation of the Fund’s investments.

GOVERNANCE

The Trustee is responsible for the investment of the Fund’s assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and whether it has the expertise in order to take an informed decision. The Trustee has established the following decision-making structure:

<p>Trustee</p> <ul style="list-style-type: none"> • Determine suitable structures and processes for carrying out its role. • Monitor actual investment results versus investment objectives. • Select and monitor investment objectives and target asset allocation strategy. • Select structure for implementing target asset allocation strategy. • Select and monitor fund managers. • Select and review direct investments. • Select and monitor advisers. 	<p>Actuary</p> <ul style="list-style-type: none"> • Advise on the suitability of the target asset allocation strategy and investment objectives in supporting the funding objectives. • Advise and comment on the long-term financial health of the Fund. • Make recommendations regarding ongoing contributions to the Fund. • Advise upon and provide, as appropriate, training for the Trustee.
<p>Investment Adviser</p> <ul style="list-style-type: none"> • Advise on all aspects of the investment of the Fund’s assets, including implementation. • Advise on the target asset allocation strategy including suitable structures for implementation and ongoing monitoring. • Advise on the selection and monitoring of fund managers and direct investments. • Advise on this statement. • Advise upon and provide, as appropriate, training for the Trustee. 	<p>Fund Managers (and Insurance Provider, where applicable)</p> <ul style="list-style-type: none"> • Operate within the terms of this statement and their written contracts. • Select individual investments with regard to suitability and diversification. • Provide, as appropriate and agreed, training for the Trustee.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These may include vehicles available for members' AVC contributions. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Dated: January 2025

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.